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Miller, J.

George Washington University ; School of Government, Washington, District of Columbia.

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COMPTROLLERSHIP AT A NAVAL OUTWARD DEPOT

By

LCDR. J. Miller, SC, USN

Prepared for Mr. A. Lee Johnson
Navy Graduate Comptrollership Program
George Washington University

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PREFACE

Reading and learning theory is one thing; applying theory is an entirely different thing. Such it is with comptrollership. There are many books and articles available on various facets of this science. For the most part authors disagree on what is encompassed in the concept of comptrollership and how comptrollership should be practiced. In one thing most agree. That is that a comptroller serves management.

Various commercial enterprises and government activities are no more consistent than the writers on the scope of this relatively new management concept. Management engineering techniques, budget responsibilities, internal audit controls, housekeeping tasks and many other jobs sometimes are and sometimes are not included as responsibilities of a comptroller. Comptrollers sometimes report direct to a comptroller at a higher level and sometimes are directly responsible to the plant manager or commanding officer. More frequently than not comptrollers are staff men. At times however they are assigned line responsibilities.

These and other variables make it particularly advantageous for anyone going to a comptroller billet to resolve the many possibilities. I have this objective in mind in writing this paper. Knowing I will have comptrollership duties at a large coastal Naval Ammunition Depot in the near future I have endeavored to define the various comptroller functions applicable to such a billet. In so doing I have tried to omit details. Rather I have concentrated on broader aspects of comptrollership on the principle that a comptroller is

most effective when he disassociates himself from details.

My sincere appreciation is extended to Mr. W. S. Williams, Comptroller, Bureau of Ordnance, Messrs. E. C. Stevens, G. Malmgren, and J. Wainwright all of the Bureau of Ordnance for the many hours of their time they so willingly gave me. Without their advice and assistance this paper could not have been written.

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CHAPTER I

BUREAU OF ORDNANCE CONTROLLER CONCEPT

A vast variety of pursuits and activities have come to be associated with the field of comptrollership. Upon entering into a discussion of comptrollership at any specific activity or group of activities clarity is injected if we first consider the policy factors which govern the degree to which comptrollership is practised.

This paper focuses consideration of comptrollership as practised at a group of related activities within the broad policy guidelines established by higher governmental authority. The higher authority is the Bureau of Ordnance of the Navy Department; the group of related activities are the Naval Ammunition Depots. The concept of comptrollership as envisioned by the Bureau of Ordnance is that generally adhered to at a large coastal Naval Ammunition Depot.

Basic Theory

The underlying purpose for the existence of a comptroller at any Bureau of Ordnance activity is to provide the commanding officer with a coordinated staff effort in achieving a goal of efficient and economic operations. To this end the comptroller at a Naval Ammunition Depot endeavors to steer management in the direction of effective financial control. In achieving a goal of effective financial management the comptroller's usefulness arises from the staff assistance and guidance which he provides the commanding officer and organizational units in the areas of financial fact finding, analysis and

interpretation, budget formulation and execution, internal review, program review and administrative and general advice to management.

Comptroller Serves Management

Proper execution of the collection, correlation, translation, analysis and presentation of data by a comptroller relieves other executives of a compromising amount of staff work. Compromising because in performing these functions themselves their efforts would be diverted to a great extent from more productive pursuits in the areas of policy formulation, decision, and program direction.¹ Thus, whereas previously each individual executive created his own staff organization to perform the efforts toward effective financial control and whereas he devoted considerable of his own time and energies toward this objective, the Comptroller of the Depot is now becoming the principal focal point for these staff efforts.

In addition to relieving other executives of many burdens, the comptroller affords a means for central coordination of a heretofore scattered process. At one focal point all information is integrated. Only in a single organizational component can many of the inter-relationships between information coming from various sources be best detected. Likewise overlapping and duplication of data collected is readily isolated. "The ultimate goal of comptrollership is complete integration and inter-relationship of all staff efforts."²

A real service can be provided to the Commanding Officer by a comptroller. Before comptrollership was developed to the place it occupies today information from many sources flowed to the Depot commander. It became a thorn in his side in trying to tie all this data together and to detect the relations

¹U.S., Navy Department, Bureau of Ordnance, "Comptrollership Organization in Naval Ordnance Establishments," BUREAU OF ORDNANCE 5450.5, 21 Nov 1944., p. 2.

²Ibid., p. 3.

and inter-relations existing in this intelligence. Through the Comptroller the commander is relieved of the spade work. The Comptroller collects intelligence, interprets and analyzes it for his commanding officer. The commander's responsibilities remain unchanged but his decisions are now based upon a meaningful collection of information accompanied by recommended or alternate courses of action.

Coordination

Comptrollership is not a one man operation. The Comptroller does not carry the management responsibilities associated with comptrollership by the Bureau of Ordnance on his own shoulders. Rather comptrollership is a team effort. In instilling the comptrollership concept the Bureau of Ordnance efforts were directed at making it part of the management responsibility of all management officials to adhere to and to apply the principles of comptrollership. The Comptroller himself is a means to an end, his title being related to the science to which his responsibilities most closely associate themselves. However, he shares these responsibilities with the entire management team. His role is one of consultation, advice and guidance.³

The emphasis, therefore, is to look upon the comptroller department as an integration and coordination of staff functions. The Depot Comptroller is a staff executive. He has no line authority other than the direction of personnel in his own department. His efforts to maintain the inter-relationship of staff activity is performed in a staff capacity. The staff functions involved are a collection of functions that have long existed at departmental level and that have or are being drawn together in one compact staff operation.

³Ibid. Enclosure (1), p. 2.

Many of these functions still exist in the various departments; nevertheless, the data must flow into the controller organization so that the information resulting from this staff effort of several departments can be tied together and inter-related before a forecast, interpretation, or recommendation can be made to the commander.

Lest the subtle yet real responsibility of a depot controller escape us, additional emphasis should be placed on the environment in which the controller finds himself. In the staff sense he is situated between the Commanding Officer and all department heads. Before assignment of a controller the Ordnance Department and the Net and Beam Department as well as all staff departments independently performed controllership functions. Coordination between departments was a matter of happenstance or was accomplished by voluntary cooperation between executives. The point is that a formal organization was non-existent even though the functions may have been effectively performed. Each department head was his own controller and he gathered data, analyzed, interpreted, reported and recommended to the Commanding Officer. The Commanding Officer was confronted with uncoordinated representation from each of his staff officers. He therefore became his own coordinator and found himself more often than not buried in an avalanche of facts and figures, forecasts and recommendations which oftentimes were completely unrelated. The Commanding Officer was in a position of having to synthesize this mass of data at the sacrifice of more important command duties. The Controller, in taking his position on the Commanding Officer's staff, becomes his principal staff adviser. He fills in a broad gap by relaying the intelligence received from other departments to the Commanding Officer in coordinated and intelligible form.

Being a staff relay point between the commander and his staff, the Controller, to do an effective job, must have access to all departments.

Again, he operates in a staff capacity and any access he does have to other departments is void of line authority. If the proper environment has been created, the controller organization should be in a position to trace detected faults or inadequacies to their organizational source. This involves cross-crossing organizational components and should ultimately result in recommendations which, when executed, will be a step toward better financial or management control.

Thus the Depot Comptroller is in a position of looking at the whole picture. He is in a better position than any other official to observe the effectiveness and influence of decisions, the smoothness of the operation, and the degree with which the depot is performing its mission. He is in a position to know more about the collective depot operations than any other person and consequently is in the admirable position of making recommendations which give consideration to their overall effect rather than the effect on any single department or component thereof.

Does the Comptroller Control?

From what has been written thus far it should have been inferred that the Depot Comptroller does not control. He is a staff man through and through. The financial and statistical data collected by the controller department when interpreted, analyzed, and reported provides the means by which management exercises management control. The controller therefore points out the areas in which deficiencies exist. The corrective action is the result of a line decision either made by the operators or the commanding officer. "The staff portion of an organization plans, and the line portion of an organization executes."⁴⁵

⁴⁵ L. Lamperti and J. E. Thurston, Internal Auditing for Management (New York: Rentice-Hall, Inc., 1955), p. 15.

It is not only important for the comptroller to be mindful of this principle but he must continually remind department heads of the fact that even though their business is his business he is in no way aspiring to control. His actions are his best proof in this respect. The staff service afforded by him should provide directional influence as the result of his suggestions, advice or recommendation. Persuasion, then, is his most effective weapon. As an occasional reminder that he does not control, the comptroller might refer to the dictionary, which relates control "To exercise directing, guiding, or restraining power over."⁵

Functions at a Depot

Many look upon the comptroller as an overambitious bookkeeper or accountant. Such an erroneous conclusion is natural, for a large portion of his department is composed of accounting services. This portion comprises the fiscal branch of what was formerly called the supply and fiscal department. The fiscal branch in the past performed the accounting responsibilities of the supply and fiscal officer and today performs like functions for the comptroller.

The accounting or recording services are essential to a financial management plan, nevertheless they must not overshadow the broader and less definable aspects of comptrollership. A comptroller's greatest contributions arise from his analytical and interpretive abilities and the advice and guidance he renders in the areas of budget formulation and execution, program analyses, internal reviews and statistical analysis. The accounting functions, in addition to establishing accountability for public funds and property and furnishing reports to higher authority, also provide most of the information through

⁵Webster's Collegiate Dictionary, Fifth Edition (Springfield, Mass.: G. and C. Merriam Co., 1943).

which the comptroller performs his interpretive and analytic functions.

Thus the functions of a depot comptroller are generalized under two major captions: reporting, analysis, and interpretive; and accounting. The reporting, analysis, and interpretive functions are primarily directed at solution of management policy problems. The accounting function is related to problems of fiscal policy.

"Comptrollers have no business of their own, but everybody's business is their business in the sense that they are prepared to analyze it dollarwise for management."⁶ The comptroller's problems, then, are first related to fiscal policy and then to management policy. The comptroller's functions evolve from these policy areas. His functions are designed to record the fiscal information which, when properly reported, interpreted and analyzed, incite economy and efficiency.

In achieving the objectives of efficiency and economy through better management and financial control, the depot comptroller's functions may be identified under five major headings:⁷

1. Budgeting and Statistics
2. Accounting and Disbursing
3. Analysis and Progress reporting
4. Internal Review
5. Financial control and management

It is with these functions that the remaining Chapters will generally be concerned. No attempt is made to go into the details of budgeting, accounting, internal auditing and reporting. Rather, emphasis is placed on the nature of these functions, their individual importance and the atmosphere surrounding

⁶NAVORDINST 5450.5A, op. cit., Encl. 1, p. 7.

⁷Ibid., p. 7.

them. All discussions will be directed to bringing into its proper perspective the job of an ammunition depot comptroller.

Comptroller Department Organization

The Bureau of Ordnance has endeavored to pursue the Navy policy of horizontal functional control at each level of management in lieu of centralized functional control or designation of prescribed organizational patterns.⁸ In keeping with this policy the organization of the large coastal Naval Ammunition Depot to the division level has been prescribed by the bureau. Organization below the division level is a command prerogative.⁹

Having identified the depot comptroller's major functions, a test of the prescribed organization can best be made by fitting those functions into the organizational structure. The positions or divisions prescribed for the comptroller department are as follows:¹⁰

1. Assistant to Comptroller for Internal Review
2. Assistant to Comptroller for Disbursing
3. Budget and Statistics Division
4. Accounting and Disbursing Division
5. Machine Accounting Division

It appears that the functions of budgeting and statistics, accounting and disbursing, and internal review are well accounted for organizationally. Progress reporting is normally a responsibility of the Budgets and Statistics Division with support afforded by the Machine Accounting Division. And finally,

⁸NAVJAGINST 5450. 5a, op. cit., p. 2.

⁹U.S., Department of the Navy, Bureau of Ordnance, Management Manual for Ammunition Depots (Washington: 1954), p. 3.

¹⁰Ibid, p. 3.13.

financial control and management is a collective effort of all organizational components.

The following chapters will be more specific in the organizational fragmentation of the comptroller department functions. The disbursing function is frequently performed as a service function by an outside activity. When disbursing is a function of the department comptroller he is generally assigned a disbursing officer who is personally accountable for his management of public funds. Accordingly, little will be said of the disbursing function. Machine accounting, being a mechanized application of accounting principles will not be specifically discussed, for any discussion would necessarily delve into the details of mechanization which is outside the scope of this paper. Thus, prime attention will be devoted to the analytical, interpreting, forecasting and budgeting staff responsibilities of the Comptroller.

CHAPTER II

BUDGETING

The real value of budgeting at field level is usually lost sight of. The budget has long been regarded as a financial struggle between bureaus and activities with the bureaus trying to cut budgeted requirements to the bone through what appears to be arbitrary tactics based on crystal ball gazing, and the activities employing every conceivable device, sometimes even deception, to strengthen justification. Properly handled, however, budgeting is a logical device for planning the depot operations over a specific period of time, normally the fiscal year.

If budgeting is a planning device, it is necessary to determine what should be planned. Far too often the assigned mission of an activity gathers dust in file drawers. It is from this assigned mission that planning must stem. In general terms the following are the major tasks of a depot as assigned by the Chief of the Bureau of Ordnance:

1. To receive, segregate, maintain, recondition, store, and issue ammunition.
2. To produce bag charge ammunition and cartridge case ammunition.
3. To assemble and issue mines.
4. To provide facilities for placing mines aboard submarines.
5. To provide ammunition ship loading and discharge facilities and control Army use thereof for the handling of ammunition.
6. To maintain under proper surveillance the ammunition and

explosives in store.

7. To dispose of unserviceable and/or dangerous ammunition and explosives, from whatever sources received in accordance with current directives. The Depot's mission as expressed above is in effect a list of objectives. It is from these objectives that a financial budget plan is ultimately constructed. If the Depot issues of ammunition were at a price such that a profit goal was sought, the Depot budgeting could very well be on the DuPont or General Motors "planning and control for profit" basis. Or the budget could be constructed on the basis of a forecasted sales volume with all depot expenses and manufacturing costs planned such that a reasonable profit was realized, a practice pursued by most corporations of moderate size.

The profit motive is lacking however. At the Depot as at any other government activity the profit motive is supplanted by a more obscure but not less important objective which is also present in the profit objective. In government our financial management goal should be to perform the assigned mission with maximum effectiveness at minimum costs. True, this as an objective not nearly as tangible as the profit objective but it is one well worth striving for and one essential to the economic well being of the nation.

Selling The Budget Idea

Before the budget can be a successful management control the budget idea must be accepted by top management and all supervisory levels. No matter how good a budget is in theory unless it is sold to people who have to use it, it may be worthless. Thus the Comptroller is always faced with the problem of communicating to all members of management what a budget is and what it can accomplish for management.¹¹ The Comptroller must spread the word that the

¹¹NAVJAGINST 2450.5A, op. cit., p. 11.

budget is the Depot's mission, expressed in dollars. The mission being made up of objectives, an operating plan must be formulated to meet these objectives. Conversion of the plan into financial terms constitutes the budget. Each organizational unit owes its existence to the part it plays in carrying out the plan. Execution of the plan requires dollars. Only through an effective budget system can we plan how many dollars we need for men, machinery and materials and measure results against that plan.

The budget provides the common denominator or unit of measurement for each supervisory segment of the plan. It forces consideration of the financial results of overall objectives and provides control by assigning each responsible executive a definite task or standard of performance against which actual results may be measured. It forces planning and coordination of plans so that every component decides for itself what it is going to do, when to do it and how well it was done. Thus the budget is a joint horizontal and vertical planning effort throughout the organization.

Without the budget device many of the operating costs are calculations based on past experience only, with little regard for the degree of change a program may experience. The budget forces management to look ahead as well as behind. Budgets should be based predominantly on planned future programs rather than on past experience.

Budgeting has an important role in the communications of the Depot. Communications down is accomplished by issuance of planning data and decisions made at budget reviews. Allocation of budgeted funds is an approval by management of the operating plans. Communications up is achieved through submission of budget estimates advising top management how the depot mission will be accomplished and how much it will cost. Further communications upward is performed when reports are made reflecting actual performance as compared with estimated

performance. Horizontal communication is facilitated through budgeting. The Ordnance Department must make known its production expectations, material and personnel requirements. From this information Public Works Department might estimate hauling requirements, Industrial Relations Department will need the manpower data and the Supply Officer will review his stock status. The Comptroller should be at the communications switchboard keeping track of everything.

These and the many other functions which a good budgeting program accomplish need be pointed out to all. The budget device must be used. To use it the budget program must be sold.

Budget Formulation

Human relations and its importance in budget work has already been intimated. In budgeting the comptroller must recognize the psychological advantage of participation by the operator. Most effective budgets are those prepared by the foreman or supervisor who will cause ultimate expenditure of funds budgeted. Human nature dictates that a goal will be attained more willingly and cooperatively if the planning is done by those responsible for execution. Some elaboration may be well worth while since the success or failure of a budget may hang in balance on this point.

The common argument against foreman participation in budget preparation is that he doesn't want to be bothered with figures, that he isn't an accountant and can't be expected to work up a financial plan. Actually budget preparation doesn't require a plan expressed in dollars in its initial phase. A supervisor's agility in working up a budget is greatly increased when he is encouraged to prepare the budget in terms he understands. This makes sense to him and is something he would normally do anyway but probably not in the form of an orderly plan.

Having determined that all levels of management should participate in

budgeting we are prepared to proceed with budget formulation. The first step is a clear statement of budget policy. This statement should start off with the Bureau planning data which will determine the level of activity for the budget year. Accompanying this data should be advice on priority of various programs, levels of effort, personnel policies, such as overtime, shifts, and manpower availability, material requirements and all factors considered requisite for planning. These policies should be issued in the Commanding Officer's "budget call". In addition the "budget call" should prescribe standards and formats for budget estimates.¹²

Operating departments now have the planning data with appropriate instructions; their task is to schedule the work and to prepare raw budget estimates based on standard performance data desired previously from past experience through the cost accounting system. Bureau plans, known backlog and trends should all be considered in estimating. The comptroller should be a store of good judgment.

The comptroller is the budget coordinator. All estimates should flow to him for review and analysis. He should convert the raw estimates into terms he best understands, dollars. In his role of coordinator he should relate different budget segments, detect duplication or overlapping, provide departmental liaison for ironing out any discrepancies detected. The comptroller is in the best position to determine whether the program requirements are all provided for, proper inter-relations exist, and estimates are realistic. He should consult department heads, advise and recommend any changes which might be desirable. His final analysis of the Depot budget should include the following consideration;¹³

¹²Management Manual for Ammunition Depots, op. cit., p. 5.8.

¹³Ibid., p. 5.10.

1. Conformance with the budget call and all bases and factors considered in the departmental reviews.
2. Overall distribution of workload.
3. Overall personnel and staffing problems.
4. Estimating bases or prescribed standards applied in relationship to Bureau planning information.
5. Internal balance-direct vs. indirect.
6. Adequacy of budgeted support services in relation to total direct workload.
7. Sequence of work schedules in relationship to overall capacity and work priorities.
8. Long-range capital equipment requirements in relationship to work schedules.
9. Levels of budgeted effort in relationship to optimum volumes and established requirements.
10. Comparison with past budgets, costs, progress records, etc. to insure validity of assumptions.

The Depot Budget Committee should hear the comptroller and each department head present the departmental budgets. The presentation is then made to the commanding officer. In both hearings the Comptroller's analysis and recommendations should be presented. If the Comptroller has done a good analytical and human relations job his views with respect to the budget should be in general agreement with the views of each department head.

Budget Presentation

"A budget expresses in numerical terms the anticipated results of

operations for a given future period".¹⁴ Such a definition covers budget preparation and presentation. Budget execution can be identified by one word, - comparison. Control is accomplished as a result of comparison. Whereas budget formulation and presentation deals with forecasting the direction in which the Depot plans to go and how it is going to get there, budget execution must provide the control necessary to keep the Depot on the proper course. This course may be the budgeted course or because of circumstances a modified budgeted course.

From the above budget execution is a controlling technique. Since the Comptroller does not control, his staff association with budget control is limited to recording, interpreting and reporting progress. His reporting might and should be accompanied by recommendations which might result in the directing of action by management. Thus in budget execution the staff position of the Comptroller receives additional emphasis.

The value of established standards is highlighted in budget execution. Responsibility for fixing standards might rest with the department performing the work measured or by an independent unit. In accounting it has always been desirable for different people to handle different steps of a system for various reasons. The same might be said of standards. To assure objectivity in establishment of standards it would appear desirable for an independent unit to perform the function. However, no matter where the responsibility rests the Comptroller should analyze them to assure their validity. For it is these standards that are so essential in translating operating plans into budgets. More important, these standards are used as a yard stick to determine if individual responsibilities are being fulfilled. The budget becomes the standard and the reports

¹⁴W. A. Lasport and John B. Thurston, Internal Auditing for Management, (New York: Prentice-Hall, Inc., 1953), p. 56.

afford the means for comparison of actual accomplishments with budgeted standards.

For the most part reports should come from the Comptroller's office as a product of the cost accounting system. The classification of accounts when properly constructed will result in compilation of data in such a fashion as to facilitate cost accounting reports. Reports need not be in financial terms and frequently are not. The language, complexity and type of the reports depends on the recipient. At ^{any} level reports should be simple and in denominators he is used to. Reports to department heads or the commanding officer should likewise be designed to suit their tastes.

Contents of reports should be no more than a summarization of information extracted from cost accounts. The accounts individually or collectively should identify specific budget items. These items should consist of the same elements of costs as were originally used in budget formulations. Costs contained in these budget elements must be reported on an accrual basis; that is, all costs incurred over the time being measured or in producing the number of units being measured should be included. An essential requirement in the reports are comparisons of budgeted with actual work and costs with significant deviations noted.

Allotment reports are part of the budget execution phase since they do report budgeted and actual obligation and expenditure of funds. As in allotment reports the need for frequent and timely reporting methods applies to all other budget control reports. The Bureau of Ordnance recommends that allotment and project order status reports be prepared at least weekly. Frequency of other internal reports is left to the discretion of the commanding officer. As a general rule, internal control reports to be of use to operating departments should also be on at least a weekly reporting cycle.

The statistical analysis and interpretation of the variances reflected between recorded data and standards is a prime responsibility of the Comptroller's office. Trouble areas can be quickly isolated and analyzed. Faulty standards may be detected. Inadequacies in forecasting techniques might be uncovered or inefficiencies might be detected which when corrected will result in substantial savings. The quality of the service of the Budget and Statistics Division may well determine the acceptability of the budget process in the eyes of line officials.

Summary

To summarize the Comptroller's responsibilities with respect to the budget the mission of the Budget and Statistics Division is quoted.¹⁵

"Provides guidance and instructions for preparation of the budgets, reviews, resources, requirements and justifications for the various programs and prepares estimates of the costs thereof; compiles the annual budget; in connection with the budget process, recommends allocation of funds to programs within the command, and revisions thereof as required; analyzes variances from the budget plan and recommends remedial action where appropriate; determines areas where desirable financial reprogramming may be effected; initiates action to adjust financial plans to available funds, and when required, submits requests for additional funds with justifications. Develops guides and criteria for the collection and coordination of financial statistical data and prepares special statistics as required by the responsible levels of command. Serves as coordinator and official clearance center for the release of financial statistical data. Provides all echelons of management with periodic progress reports and special statistical data on programs they administer."

¹⁵Management Manual for Naval Ammunition Depots, op. cit., p. 3.13.

CHAPTER III

APPROPRIATION, COST, AND PROPERTY ACCOUNTING

Among the Comptroller's financial management responsibilities are the accounting methods required in connection with appropriation, cost and property accounting. This financial management responsibility may be expressed in other terms as the reporting of receipts and expenditures of public funds and property.

Accounting is perhaps one of the more unchallenging of the Comptroller's activities. There is little excitement or challenge in the accounting job other than being sure it is well done. This however makes the accounting function no less important than budgeting, statistical analysis, or forecasting. An effective operation in the sphere provides the wherewithall to insure compliance with prescribed regulations, to establish systems of budgeting and allotment controls, to provide necessary information for Bureau of the Budget estimates and to keep track of the worth of many assets and provide accountability for those assets.

In order to achieve those objectives the accounting organization of a Naval Ammunition Depot Comptroller's Department adheres to certain principles, procedures, and policies prescribed by the Comptroller of the Navy. The specific functions evolving from this source pertain to timekeeping, civilian payrolls, cost and reports, inventory accounting, disbursing, and machine records. These functions may be reclassified to a form more closely related to appropriation, cost, and property accounting. Such a classification would include allotment

accounting, stores accounting, cost accounting, and plant property accounting. It is only the appropriation and cost accounting functional categories with which this chapter will deal since they bear a strong relationship with internal controls.

Appropriation Accounting

Following the budget formulation and presentation stages for any fiscal year and concurrently with the budget execution phase appropriations are enacted into law by Congress to provide agencies with funds to finance the budget execution. Appropriations are made available to the executive branch and through the apportionment process to the various bureaus and agencies.

Following apportionment funds are apportioned down the line until they reach the level at which they were requested. Appropriations reach the depot in the form of allotments or project orders which represent additional obligational authority within the limit stated by the allotment or project order. Expenditures made at the depot whether for materials, labor or services result in lodging charges against allotments or project orders.

On the basis of the budget estimates the funds made available to the depot commander should be distributed to the various departments. Allocations or sub-allotments issued to heads of departments should not exceed the amount approved by the bureau in the annual budget or the amount of the specific project order or allotment. Heads of departments receiving such allocations are legally responsible for assuring the funds are not overobligated as is the commanding officer responsible for the total allotment or project order.¹⁷

It is quite apparent that some means must be in force for regulation and control of expenditures made against the funds entrusted to a depot. This

¹⁷Management Manual for Ammunition Depots, op. cit., p. 5.12.

is accomplished by establishing controls which ensure adherence to statutory requirements and compliance with regulations imposed by higher authority. To this end the accounting department performs allotment and project order accounting and causes to be made the necessary adjustments between appropriations.

Financial reports for appropriation allotment and project order accounting fall into two major areas: (1) depot reports for internal management purposes (2) depot reports for use by outside agencies to fulfill departmental or statutory requirements. The procedures and records prescribed by the Navy Comptroller¹⁸ are specific and if strictly adhered to in their details will assure compliance with statutory and agency requirements. It is also necessary and expected that we have adequate measures for sub-allocation of funds to depot departments, procedures for their obtaining materials and for charging labor, processing methods for obligational or expenditure vouchers and other internal controls. This is not enough however. It is imperative that the accounting system be well oiled at all times, that documents flow expeditiously, that internal reports be given the recognition they warrant and that other internal considerations receive the attention required for good management controls.

The Comptroller Department from a comptroller's view point should then devote much attention to the service provided by appropriation accounting internally. If there is failure in this respect it is likely the entire financial control effort will be sabotaged. This service of which we speak is the accurate and timely reporting of the status of allotments and projects orders to local administrations at a frequency necessary for proper control by department heads.

Duplication frequently exists in maintenance of allotment records

¹⁸Navy Comptroller Manual, op. cit.

between the fiscal offices and the individual departments. This duplication is usually the result of tardiness and low frequency of fiscal office allotment reports. These reports are intended to provide a statement of expenditures, unexpended balances, obligations, unobligated balances, reservations, and amounts available. Such figures serve the purpose of telling the departments where they stand budget-wise - how well actual expenditures are in line with budgeted expenditure. In addition it is a ready check for a department head who is personally charged with the statutory responsibility for assuring funds put in his charge are not overobligated.

In view of these considerations it is reasonable to expect that the Comptroller hand over backwards to provide all departments with a brief allotment status report at time intervals suitable to them. Further the accounting system should have vitality and figures reported should be current. At the Depot an allotment status report should reflect the unobligated status of allotments as of the previous day. Confidence in the fiscal department's ability to perform this task will most assuredly cause abandonment of obligation files in each department identical to fiscal office files. The obligations incurred in the one or two days after the cut-off date of the allotment report can be accounted for by departments as long as they know when the cut-off date is. All stubs on that day or prior should be discarded. Subsequent stubs should be viewed as obligations not appearing on the report.

This has been a broad brush treatment of appropriation accounting. No mention has been made of appropriation summaries, material summaries, the analysis of material summary by expenditure classifications. Forms are used for recording and reporting such data but these are the details of accounting. It is these details the comptroller should detach himself from to the maximum possible. It is sufficient for the comptroller to recognize the need for

performance of these functions in accordance with regulations and has qualified personnel assigned to those functions. Remembering that this paper is emphasizing the internal service provided by a comptroller it would appear that the most important in the area of appropriation accounting are local allotment status reports generated by the same accounting system perfected for preparation externally requires allotment status reports. The Accounting Division should consider one of its fundamental internal responsibilities for effective internal management to be telling each holder of an allotment or sub-allotment or project order how he stands. Furthermore this advice should be furnished on a strict current basis and of such frequency as may be required by the responsible authority.

Cost Accounting

The job-order cost accounting system is used at the Depot. Direct labor, direct material and overhead costs are charged to job orders identified to specific operations. No work is performed and no work can be charged unless the work request, job order or work order has been issued to cover the work.

A cost accounting system must be tied rather closely to planning, budgeting, scheduling, performance analysis and appropriate accounting. The planning, budgeting, scheduling and performance combination is normally accomplished on the basis of organizational units. The work for units and their responsibilities are reflected in plans, budgets and schedules. Their individual performance are evaluated on the same basis. The cost accounting system must be keyed to a recognition of these organizational responsibilities for it is through the system that management is provided with data necessary for a comparative analysis. For the sake of simplicity, the cost system must also be keyed to the organization's accounting system. Data collected by the cost

system when summarized should be suitable for application to the accounting system and its required reports.

Advantages of Cost System

Many advantages accrue from the effective use of a cost system. By the establishment of a good chart of accounts the data collected facilitates budgetal comparisons, identifies costs in areas of responsibility, provides a means of coordinated control. The system affords a means of measuring the efficiency of men, materials, and machines. Waste can be eliminated by using information provided by the system. Comparison between depots can be made in order to measure their relative efficiency and finally unit costs are readily obtained.¹⁹

The greatest advantage of a cost system is that it gives management another means of control. Broad requirements of cost accounting are prescribed by the Navy Comptroller Manual and Bureau of Ordnance directives. These documents provide central control of basic system employed and reporting requirements. Local development should in all instances supplement the above requirements so that a totally integrated system prevails. Reports generated by the local system should be designed so as to provide management with intelligible information which will provide the foundation for control action.

The local chart of accounts must be designed with the idea that they are to serve the operators rather than the accountants. Summarization of individual subsidiary accounts will provide the accountants adequate information for controlling accounts. The objectivity used in establishing subsidiary accounts for the cost system will be a direct measure of the effectiveness of the system.

¹⁹A. Mats, O. J. Curry, C. W. Frank, Cost Accounting, (New Rochelle, N. Y.: Southwestern Printing Co., 1952), p. 22.

Different considerations govern establishment of accounts, records and reports for the different levels of management. What is shown to the commanding officer will differ considerably in detail, length and terms from what is presented to shop foreman.

Before leaving this subject a general understanding of the Bureau of Ordnance cost accounting concept is essential. Thus the following discussion, based on a Bureau of Ordnance directive,²⁰ will be directed at an explanation of the system with particular emphasis on the handling of indirect overhead.

Funding

It will be recalled that funds are provided in the form of allotments and project orders. The station maintenance allotment supports non-productive operations. Productive authorizations in the form of allotments and project orders support work performed at the depot.

Indirect Costs

Indirect costs are classified as distributable costs and non-distributable costs. They are also divided into general and administrative expense, service expense, and manufacturing expense. Of the total amount of indirect cost a certain portion would be incurred whether or not any productive effort existed. Generally this portion would be made up of ^{from} ~~most~~ general and administrative expense and a smaller amount of service expense. Further this cost would be considered non-distributable. To further justify the non-distributable amount, assume the Bureau of Ordnance operates fifteen depots although the total work performed could be accomplished by five depots. The extra ten depots

²⁰U.S. Navy Department, Bureau of Ordnance, "Procedure for Computation and Application of Overhead at Modified Industrial Ordnance Activities," NAVORDINET 7310.1A, 15 June 1954.

owe their existence to national security insurance. Operating at 30% capacity now, in the event of mobilization all fifteen depots could rapidly expand their operation to 100%. The non-distributable overhead is presumably the cost of operating a depot where no production activities are engaged in. It is an important cost because it indicates the cost of defense insurance. This overhead cost is termed the Basic Maintenance Amount.

Non-distributable costs include the Basic Maintenance Amount, the capital requirements, and amounts required for reimbursable work for other government departments. These amounts also comprise final charged to the station's maintenance allotment.

Generally, the indirect distributable overhead is that amount which would be required to perform the total work whether it were done at fifteen or five depots. It is primarily made up of manufacturing expense and that portion of service expense attributable to production. It is the overhead most closely associated with actual work performed which would remain a cost regardless of the defense insurance aspect.

Both distributable and non-distributable overheads costs are initially charged to the station maintenance allotment. Since the total amount allotted to the Depot is the estimated or budgeted non-distributable overhead there are inadequate funds available for absorbing distributable overhead charges. This problem is solved by applying what amounts to an advance credit to the maintenance allotment (Basic Maintenance Amount) equal to the amount of the monthly estimate of distributable overhead. This advance is liquidated by periodic application of applied overhead credits. The net effect of the credit entries is to deduct estimated and applied overhead amounts from station maintenance allotment obligations and liquidations.

Distributable overhead estimates at the beginning of the month will

rarely equal overhead applied since both are estimates. Estimated overhead is based on a predetermined rate applied to the budgeted amount of direct labor. Overhead applied is based on a predetermined rate applied to actual amounts of direct labor. At the end of the month an adjustment is made to make the total of estimated distributable overhead equal overhead applied.

The distributable overhead estimated and applied will seldom result in causing the actual Basic Maintenance Amount to be equal to the fixed amount. It will be recalled that the Basic Maintenance Amount was fixed. An adjustment is now made to bring the applied and adjusted estimated overhead into agreement with the Basic Maintenance Amount. This adjustment results in a charge or a credit to the Depot's maintenance allotment and is the under or over absorbed overhead. The amount of this adjustment will cause the total obligations recorded under the Basic Maintenance Amount of the allotment record to be equal to the monthly increment of the Basic Maintenance Amount. The adjustment is also taken up in an open allotment administered by the Bureau of Ordnance.

Direct Costs

Direct labor and direct material charges are recorded directly to job orders from labor rolls or material vouchers. These job orders are subsidiary to productive authorization allotments or project orders. Periodically labor rolls and material charges are also posted to allotment or project order records. These records should be in agreement with the subsidiary job orders.

Periodically the predetermined overhead rate is applied to the direct labor amount recorded on job orders. The result is the applied overhead which is also recorded on the job order. The total of all overhead applied to job orders is equal to the applied overhead periodically recorded on the station maintenance allotment record as a credit liquidation of the estimated

distributable overhead applied at the beginning of the month. At the same time this applied overhead is recorded as a charge on the allotment or project order record of the production authorization.

Summary

By the process outlined all direct and overhead charges are recorded against productive authorizations. Capital requirements and reimbursable work with applied overhead and Basic Maintenance Amounts have been properly charged. A labor roll summary, analysis of overhead and analysis of labor roll summary are prepared monthly to summarize these transactions. It should be noted that all accounting data is based on an obligational basis insofar as distribution of overhead charges is concerned. Such a system permits application of most overhead charges in the same period in which the materials or services were actually used since the requesting of an obligation indicates that a labor service has been performed or material requiring replacement has been used.

CHAPTER IV

INTERNAL REVIEW

A large coastal Naval Ammunition Depot represents no small operation. Like the commercial enterprises making up a substantial portion of American industry, defense activities have grown to tremendous size. Ammunition Depots are no exception. Whereas several decades ago the Commanding Officer could personally keep abreast of all Depot activities, today the physical size, manpower force, and production responsibilities are such that the Commanding Officer has unavoidably moved farther and farther from the actual operation.

Need for Internal Review

It is because of the vastness of a depot's operation that the remote control aspect of modern day management has gained much momentum. In order for the Commanding Officer and other executives to properly control the operations of a depot some means must be adopted whereby management is kept adequately informed so that intelligent direction and guidance will be forthcoming. The broadening distance between top management and execution of operating plans accentuates this need of some tool which will bridge the gap. Communications from top management more naturally jump this gap than does intelligence from below. Management's answer to this problem has been the adoption of management controls.

A principal problem of the Commanding Officer is the need for observation to facilitate his coordination and control of operations. Internal Audit

is the management control device which performs the observation function. Internal Audit observes the effects of all other management controls. Heretofore internal auditing was aimed at observation of accounting or financial controls. Today internal auditing is closely allied with controls through sound organization, budgeting, forecasting, policy accounting, manuals, reports, job analysis planning. These and other forms of control supplant the personal observations formerly depended upon. Internal Audit is a control of the controls. "Modern internal auditing is more than a mere mathematical checking or routine examination of accounts. It comprises a complete...financial and operation review."²¹

It is not to be inferred that these controls relieve individual supervisors of any responsibility. Management controls do relieve management heads of burdensome observation. The controls afford a filtering process whereby only the essential information is communicated. At all levels of Depot management because of the magnitude of its operations, personal observation is plagued with misinterpretation, misunderstanding, poor judgment and neglect. Built in controls counter this weakness of the human element.

Responsibility for Internal Review

Appraisal and review of management controls falls the lot of internal audit. The responsibility for internal audit as presented above, that is, control of all other controls, is divided between the Comptroller and the Management Engineer. The controls with which the Comptroller is primarily associated are those related to accounting and financial systems.²²

²¹W.A. Walker and W.R. Davies, Industrial Internal Accounting (New York: McGraw Hill, 1951), p. 3.

²²U.S., Navy Department, Bureau of Ordnance, "Naval Shore Establishment Internal Review (internal audit) function," NAVORDINST 7500.2, 8 Feb 1955, p. 2.

The other management controls, responsibility for the execution of which rests with the Management Engineer, have been mentioned here because a close relation exists between the staff efforts of the Management Engineer and the Comptroller. Management Engineering provides for broad aspects of management controls evaluation. Internal review or audit limits its province to the financial aspects of management control evaluation.²³

A working understanding must be established between the Comptroller and the Management Engineer to insure that their efforts are coordinated, that they complement rather than work against each other.²⁴ Obviously the Management Engineer will make surveys which will encompass the activity of the Comptroller's Department. Methods engineering, work simplification, organizational and functional relationships, distribution and utilization of manpower, facilities and equipment, work measurement, analysis of variances from plans and standards are all studies, surveys or reviews performed by the Management Engineer. The comptroller reviews and examines accounting and fiscal systems of checks and balances, procedures, records and documents used for internal accounting controls and fiscal procedures in terms of completeness and effectiveness. Additionally, the Comptroller is responsible for analyzing variances from the budget plan. Thus it is readily seen that it is difficult to draw a line between the responsibilities of the two departments. Organizationally such a condition is undesirable. In inland depots the Management Engineer is in the Comptroller's Department. In large coastal depots there are either two separate departments or the functions are integrated in the Comptroller's Department at the option of the Commanding Officer.

²³Ibid, p. 7.

²⁴Management Manual for Naval Ammunition Depots, op. cit., p. 5.19.

Simply stated, internal review at an ordnance activity is nothing more than checking up on the financial controls established in the depot. More specifically the following definition may be useful:²⁵

- (1) Verification of financial transactions, documents, records and reports to provide management with an organized audit control insuring loyalty of transactions, accuracy of data and compliance with prescribed policies, systems and procedures.
- (2) Study, analysis and constructive appraisal of established financial policies, systems, records, reports, budgeting, costing and control to provide management with recommendations for improvement.
- (3) Study, analysis and constructive appraisal of the financial aspects of the internal control system to provide management with recommendations for improvement.
- (4) Study, analysis and constructive appraisal of management utilization of financial records, data and reports to provide management with recommendations for improvement.

Limiting the internal review to financial considerations does not appear to be compatible with the general approach taken at the beginning of this Chapter. That approach it will be recalled was centralized staff observation of management controls. Internal review as defined above has been limited to financial controls. Other management controls have been centered under the Management Engineering Department where separately established with a consequent duplication overlap and interlap of staff functions. Assuming that the basic philosophy of Comptrollership is a coordinated staff effort it is difficult to justify the division of staff responsibility. It would appear that reviews of Organization and Methods work such as organizational surveys, work simplification and work measurement are tools definitely falling within the realm of observation of management controls. These tools complemented by financial management tools would result in full integration of the staff effort. It would give the internal review function full responsibility for ascertaining that all management controls assure (1) guarding against losses, (2) protection of assets, (3) accuracy of financial statements, (4) adherence to

²⁵NAVORDINST 7500.2, op. cit., p. 2.

policies and procedures, and, most important, (5) that the most economic and effective methods and procedures are used.

Thus it seems a logical step to transfer the Organization and Methods review functions from the Management Engineering Department to the Comptroller's internal review staff and that the definition of internal review be broadened to include these functions. The Management Engineering Division will then be free to concentrate more attention to industrial engineering matters such as productive standards and variances, quality considerations, production efficiency and the like.

This is an area of much controversy and is currently receiving considerable attention in the Bureau of Ordnance. No matter what the outcome it is well that the Comptroller have a clear understanding of the hazy relationships which exist. With this well in mind our objective approach should result in an atmosphere of coordination and cooperation between the Comptroller and the Management Engineer.

Atmosphere

Auditing is commonly considered akin to "gestapo." This must not be the atmosphere at a depot. The auditor is not on the depot to put people on the spot. He is there for the purpose of helping. Any other duties are secondary. In working with operators an attitude of mutual assistance is the ideal to be attained.

The auditor is not so much interested in uncovering fraud or irregularities as he is in assuring to his own satisfaction that management controls are strong enough to prevent fraud. His goal is to find methods and procedures which will cause depot operations a maximum efficiency, economy, and effectiveness.

It is important that there exist a mutual understanding between the

auditor and the operators of their relationship. If it is clear to the operators that the auditor is more interested in helping them uncover shortcomings and in developing ways of improving operations, life on the depot will be much happier for the internal audit team.

Service Provided

"Internal auditing is one of the principal techniques of appraisal and evaluation of results."²⁶ Internal Auditing makes the following observation for management:²⁷

1. Are its plans, policies and procedures being effectively and efficiently executed?
2. Are all managerial and accounting controls functioning properly?
3. Are financial statements and statistical and other reports accurate and complete?
4. Are depot assets safeguarded and used properly?
5. Is management correctly informed of important facts and happenings in the organization?

The internal auditor is equipped to find the answers to such questions. He should be given freedom to bounce into any level in the organization so that his analysis will be made at a point closest to the point of responsibility. By going into any spot of the organization he becomes the eyes and ears of management. He assures that: organizational changes are made effectively; policies are stated clearly and are adhered to; methods and procedures are efficient, up-to-date, and consistent on a depot wide basis; management plans are carried out. The auditor can assure management that departments are coordinated,

²⁶F.A. Lamperti and J.B. Thurston, Internal Auditing for Management (New York: Prentice Hall, Inc., 1953), p. 9.

²⁷Ibid.

checks and balances exist, expenditures are in accordance with policy and are subject to progress forecasts and budgeting controls, and that results are measured against standards with due recognition given to variances.

Thus the internal auditor is a principal influence in the concept of control. He gives management the means by which it is adequately informed in order to provide for intelligent and effective guidance and direction. The information provided should be condensed, summarized and presented in comparative form for all elements of management. Exceptions to past averages or standards should be flagged whether they are bad or good. Thus the technique of management by exception should be used freely.

Organization Control

Since one of the most important of management controls is control through organization, it is selected for discussion. Organization should receive the greatest emphasis of the internal auditor, for it is upon organization that all other controls depend. Organization control has received more recognition in the military than in industry for a number of years. For this reason standard organization has been resorted to to the extent feasible. The Bureau of Ordnance prescribes the Depot formal organization through divisional level. Below this level the Commanding Officer exercises considerable latitude in control through internal organization.

The significance of control through organization is best illustrated by considering the relation between organization, accounting and budgeting. The cost system of the depot should be constructed such that it identifies organizational responsibilities. Organizational units should be the basis for collating, reporting and measuring cost information. Using the correlated organization and cost system for budgeting facilitates comparison of budget costs

with actual costs. When properly organized the Depot will be responsive to changing conditions since no matter what the change individual responsibility will exist.

Organizational control should assure that authority or management control is delegated nearest to the point of action. This will give more meaning to budgeting and the accounting system. Every man should know what he is expected to do, to whom he is reporting, and who reported to him. The organization should be such that planned work can be divided into tasks for which organizational units are responsible. Coordination of collective units of the plan is accomplished at each higher organizational level.

Thus in organization we have a vehicle by which management can install the required management controls. Through organization Depot problems, objectives, and programs are defined in manuals and instructions. The internal auditor should be continually reviewing to assure that the principles of sound organization are applied. He should be able to detect faults in the organizational structure, duplications of effort, overlapping of functions, and the like, and he should propose necessary remedial action to management.

Summary

This discussion has been directed at an understanding of the internal review function. If nothing else has been accomplished other than identifying internal review as a super management control which assesses other controls this discussion has been worth while. The Comptroller or Management Engineer as the case may be must not fall into the trap of looking upon internal review only as a financial control and industrial tool. Although a Depot is an industrial activity and much emphasis is placed on operating performance analysis of the Ordnance Department and the Net and Boom Department, it must

be recognized that staff services are continually growing and that the idea that their efficiency is immeasurable is a myth. Great improvements can be made in organization methods, procedures, training, work simplification, and so on in the non-manufacturing areas. Internal review should be directed at manufacturing and non-manufacturing entities and at financial and non-financial controls.

CHAPTER V

STAFF RELATIONSHIPS

The discussion of the Bureau of Ordnance concept of comptrollership in Chapter I and the nature of execution of his functions discussed in subsequent chapters lead us to the inference that the depot comptroller is generally free of direct external or internal influence. His responsibility is to his commanding officer and to other staff departments and to operating departments. However, the responsibility is in the nature of an advisory staff capacity. He is not a line executive.

External direction affecting the comptroller is directed to the Commanding Officer; communications leaving the command are in the name of the commanding officer.

Internal relationships are such that the comptroller does not interfere with operations nor do the operators interfere with him. The comptroller must have access to information in other staff departments and operating departments but the influence is manifested in his relationship with other executives. Their confidence in his ability, sincerity and trustworthiness will go far to ease acceptance of his ideas.

Easy access to his commanding officer is equally important. The Comptroller should report directly to the commanding officer as his chief advisor on financial and management control.

It doesn't require a great deal of imagination to envision a comptroller becoming an unpopular fellow. His close relations and ready access to

the commanding officer may result in resentment by other staff members. He may appear to be the only executive to have the ear of the Chief. This is an atmosphere which must be avoided for as soon as it manifests itself the Comptroller's usefulness is compromised. He will no longer be a relay point because no one will communicate with or confide in him.

The comptroller and the commanding officer must studiously avoid this relationship creating discontent. Ardent recognition of the line-staff concept should assure success. The fruits of the comptroller's efforts must be communicated from him to the commanding officer. From the commanding officer decisions should flow to his departments.

Any staff man has found himself in a position of having his Chief return one of his recommendations approved with a note directing that it be effected by the originator. This is fine if it is desired that the comptroller smooth the idea up in final form for the chief's signature. Frequently it doesn't mean this but envisions going to parties concerned and telling them to get hot. This manner of communication should be avoided at all costs. Decisions should be communicated from the depot commander to the affected department irrespective of who originated the proposal or recommendation.

Thus the greater his ability to "dodge" the command function the more harmonious will be the comptroller's relationships with other departments and the easier will be his job.

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